

Message Text

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SUBJ: CURRENT ETHIOPIAN COFFEE SITUATION

REF: ADDIS ABABA 662

1. BASED ON DISCUSSIONS WITH ATO HAILU TAFFARA, GEN MGR
OF THE COFFEE PRODUCTION AND PROCESSING AGENCY (CPPA), PRIVATE
TRADE SOURCES, AND A FIELD TRIP TO KAFFA PROVINCE, THE CURRENT
COFFEE SITUATION MAY BE SUMMARIZED AS FOLLOWS:

A. APPROXIMATELY 40,000 M T OF COFFEE HAVE BEEN EXPORTED
THUS FAR DURING THIS COFFEE YEAR (1OCT 75 TO 30 SEP 76), OF WHICH
APPROX 25,000 M T HAVE BEEN SHIPPED TO THE US.

B. ESTIMATES OF TOTAL EXPORTS FOR THIS COFFEE YEAR VARY FROM
60-80 M T WITH CPPA ESTIMATES ON THE LOW SIDE AND
PRIVATE TRADER ESTIMATES ON THE HIGH SIDE. IF THE LOW ESTIMATE
PROVES CORRECT THERE SHOULD BE 15,000 TO 20,000 M T CARRY-
OVER INTO THE NEW COFFEE YEAR. OWING TO SHARP PRICE INCREASES IN
JULY 75 ALMOST NO STICKS WERE CARRIED OVER INTO THIS COFFEE
YEAR.

C. COFFEE HAS NOT BEEN EXPORTED AS RAPIDLY AS INITIALLY
EXPECTED OWING TO STRONG PRICE INCREASES DURING THE COURSE OF
THE COFFEE YEAR WHICH HAVE ENCOURAGED TRADERS TO HOLD COFFEE
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FOR SPECULATIVE PURPOSES. FOR EXAMPLE, CPPA ESTIMATES THAT 15,000

M T STILL REMAIN IN KAFFA PROVINCE. ACCORDING TO PRIVATE EXPORT SOURCES, HOWEVER, NO EXPORTERS WITH THE POSSIBLE EXCEPTION OF ONE, ARE ENGAGED IN INVENTORY ACCUMULATION OWING TO THE RISKS GIVEN THE CURRENT COFFEE MARKET. RECENT TRADING HAS SEEN TRANSACTIONS AT US\$1.16 PER LB FOB DJIBOUTI COMPARED TO US\$.40 PER LB A YEAR AGO.

D. CPPA INFORMALLY ESTIMATES COFFEE SMUGGLING AT ABOUT 10-15,000 M T THIS YEAR MOSTLY FROM WOLLEGA PROVINCE INTO SUDAN AND A LITTLE FROM SIDAMO PROVINCE INTO KENYA AND SOMALIA. OWING TO STRONG COFFEE PRICES THE EXPORT SURCHARGE IMPOSED BY THE GOVT HAS REACHED E\$86 PER 100 KGS BUT IT IS NOT HIGH ENOUGH TO OFFER MAJOR INCENTIVES FOR SMUGGLING.

E. DOMESTIC COFFEE CONSUMPTION IS ESTIMATED AT 50,000 M T BY CPPA OR SLIGHTLY BELOW TRADITIONAL LEVELS. APPARENTLY ETHIOPIAN CONSUMERS ARE PREPARED TO PAY EXPORT LEVEL PRICES FOR COFFEE. IN THIS CONNECTION IT SHOULD BE NOTED THAT COFFEE PER FRASALE (17 KGS) WAS E\$17 LAST YEAR WHEREAS THIS YEAR IT IS E\$60-65.

2. CPPA EXPECTS TO HANDLE APPROX 20-25 PERCENT OF TOAL COFFEE EXPORTS. GIVEN THE FACT THAT THIS IS THE FIRST YEAR CPPA HAS PARTICIPATED IN COFFEE PURCHASE AND EXPORT THIS WOULD BE A REMARKABLE ACCOMPLISHMENT. THERE ARE REPORTS, HOWEVER, THAT IT IS RUNNING INTO SOME DIFFICULTIES WITH RESPECT TO MEETING CONTRACTS (ALTHOUGH THIS IS DENIED BY ATO HAILU) AND THAT IT IS EXCEEDING ACCEPTED COFFEE CLEANING REQUIREMENTS BY 5-10 PERCENT. (FYI: ORDINARILY 5 PERCENT OF COFFEE PURCHASED FROM WHOLESALERS IS REMOVED AS IMPURITIES BEFORE EXPORTERS SHIP TO OVERSEAS BUYERS. END FYI) IMPORTERS REPORT THAT COFFEE SAMPLES SUBMITTED BY CPPA FAR EXCEED TRADE STANDARDS. IF THIS IS THE CASE, THERE IS A POSSIBILITY THAT CPPA WILL RUN A DEFICIT ON ITS TRANSACTIONS AS IT IS DISCARDING COFFEE (AS IMPURITIES) WHICH IT PURCHASED AT A HIGH PRICE AND COULD HAVE SOLD AS PART OF ITS EXPORTS. THIS COULD BE OCCURRING BECAUSE OF POOR MANAGEMENT OR BECAUSE THE CPPA IS ANXIOUS TO ESTABLISH A SOUND REPUTATION AMONG FOREIGN BUYERS.

3. BASED ON OBSERVATIONS IN JIMMA, IT IS CLEAR THAT FARMERS LIMITED OFFICIAL USE

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HUVE BENEFITTED GREATLY FROM HIGH COFFEE PRICES. DEMAND FOR CONSUMER GOODS SUCH AS CLOTHING, SHOES, TRANSISTOR RADIOS AND OTHER LIGHT MANUFACTURES HAS GONE UP SUBSTANTIALLY AND SHORTAGES OF CERTAIN GOODS EXIST. THIS IS PARTLY AS A RESULT OF GOVT PRICE CONTROL POLICIES WHICH ARE APPARENTLY BEING ENFORCED FAIRLY RIGOROUSLY. DEPOSITS IN LOCAL BANKS HAVE ALSO GONE UP BY ROUGHLY E\$2 MILLION DURING THE PAST THREE MONTHS; THIS IS, HOWEVER, ONLY A SMALL PROPORTION OF THE TOTAL FUNDS WHICH HAVE FLOWED INTO THE

JIMMA REGION AS A RESULT OF COFFEE SALES AND REFLECTS A LACK OF CONFIDENCE IN BANKS AND/OR THE ABSENCE OF A SAVINGS HABIT AMONG FARMERS.

4. ACCORDING TO SOURCES IN JIMMA, THE PROSPECTS FOR THIS YEAR'S COFFEE CROP APPEAR EXCELLENT, PERHAPS EVEN BETTER THAN LAST YEAR. THESE OBSERVATIONS ARE BASED ON FLOWERING OF THE COFFEE TREES. AS IT IS VERY EARLY IN THE SEASON IT IS STILL TOO SOON TO PREDICT THE FINAL SIZE OF THE CROP AS COFFEE BERRY DISEASE AND OTHER PROBLEMS COULD SEVERELY REDUCE PRODUCTION. NOEVERTHELESS, OBSERVERS ARE HIGHLY OPTIMISTIC AT PRESENT ABOUT THE PROSPECTS FOR THE UPCOMING CROP.
HUMMEL

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